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*Mr. George Thompson*  
*With the author's most respectful compliments.*

# LETTER

TO

JAMES WILLIAM GILBART, ESQUIRE,

MANAGER OF THE LONDON AND WESTMINSTER BANK,

ON THE RELATIVE MERITS OF THE

ENGLISH AND SCOTCH BANKING SYSTEMS;

WITH

PRACTICAL SUGGESTIONS FOR THE CONSOLIDATION OF  
THE ENGLISH JOINT-STOCK BANKING INTEREST.

BY

ROBERT BELL,

ACCOUNTANT, WESTERN BANK OF SCOTLAND. EDINBURGH.

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## LETTER, &c.

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SIR,

YOUR position, at the head of one of the most powerful joint-stock banks in England, and your connection with many similar establishments throughout the country, have led me to address the present letter to you. It seems to me that you are in an especial manner called upon, from the situation which you occupy, as well as from the talent which in this department you have displayed, to take a prominent part in consolidating and protecting what may be called the joint-stock banking interest of England. And although such an undertaking will undoubtedly demand a large sacrifice of your time, and an energetic contest, not only with prejudices, but with conflicting and adverse interests, yet I can entertain no doubt, that, with the enlightened co-operation of those to whom you must have access, or with whom you are already professionally connected, you have the means of conferring one of the most important benefits which, under existing circumstances, can be conferred, on the monied interests of this country.

One difficulty, which stands at the very threshold, arises from the disrepute and discredit into which joint-stock banking in England has fallen, in consequence of the mismanagement of the rash and ignorant persons to whom the management and direction of several of the provincial establishments

have been confided. But this is not the only difficulty ; for, independently of many instances of individual ignorance or misconduct, there appears to be some radical defect in the joint-stock banking system of England. It is true that you have professed to copy the Scotch mode of banking ; and in some of the details of your system you have even made valuable improvements on that of Scotland. Still, however, you have failed to adopt what may be called the distinctive and most valuable principle of Scotch banking. You have left the English establishments with no efficient control on the operations of each other, and, in particular, without that most salutary practical check on their issues, which is, and long has been, in operation in Scotland. The consequence has been, that the English joint-stock banks, under the influence of a short-sighted rivalry, by indicating distrust of each other, have, in the aggregate, failed to obtain the confidence of the public, without which it is in vain to think of successful banking. Public confidence is, in truth, the fundamental principle on which the whole banking system rests ; and unless you find the means of securing that in its largest acceptation, England cannot expect to enjoy the inestimable benefit of a stable and permanent system of joint-stock banking.

That the English joint-stock banks have not yet obtained the necessary degree of public confidence, is evinced by the facts, that investments in their stocks yield a return of from five to seven and a half per cent. ; and that the paper circulation of the country, notwithstanding their widely diffused constituencies and their numerous branches, is to a great extent in the hands of the Bank of England, and of the private banks. It is true that this is a result traceable in part to other causes. The monopoly, privileges, and influence of the Bank of England have long operated as checks on banking enterprise in England. And although the restriction which was formerly enforced all over England, as to the number of partners in banking com-

panies, has now been removed, yet the exclusive privilege still possessed by the Bank of England in London, and for sixty miles around it, has not been without its effect. But, apart from these considerations, you have also had to contend, in England, with the suppression of the small bank notes, practically a sacrifice to the interests of the Bank of England, and, as a measure of policy, one of the most unfortunate mistakes which was perhaps ever committed.

It was believed, and much insisted on, at the time, by a certain class of our political economists, that the commercial crisis of 1825-26 owed its origin to the encouragement given to over-trading by improvident banking; and that the private banks had been induced to afford that encouragement by the profits arising from the circulation of their small notes. The bank of England saw at once the advantages likely to accrue to that establishment, from the suppression of those notes; and Sir Robert Peel, misled by the outcry raised by the economists, and echoed by the bank, introduced the statute by which they were abolished. A similar measure, it is believed, would not have been distasteful to one or two of the great banking establishments in Scotland, and exertions with that view were actually made; but this portion of the kingdom was saved from that misfortune by the memorable and patriotic exertions of Sir Walter Scott; whose sagacity, in foreseeing the consequences of such a measure, was no less remarkable than the ability with which he successfully averted the evil, by demonstrating its pernicious tendency.

But even supposing that the private banks and their small notes were answerable for the commercial distress of the year 1825, every practical banker knew, what has since been tested by painful experience, that the remedy proposed was wholly inadequate as a protection against the evil, while at the same time it imposed on the country the heavy expense and the great inconvenience of a metallic currency. The remedy for

this evil, whether imputable to the private bankers or not, never ought to have consisted of a curtailment of the profits of banking. On the contrary, the duty of Government was to sustain those profits, so as to have induced men of capital and character to embark in a trade on which the whole commercial transactions of the country depended, and at the same time, if possible, to have placed banking under a system of control calculated to have discouraged speculation and over-trading.

The course pursued by Sir Robert Peel, however, was diametrically the reverse of this. Having curtailed the banks of the profits arising from the small-note circulation, he withdrew the limitation on the number of partners in banking companies, and the result was precisely what might have been anticipated. Joint-stock banks sprung up in every quarter of the country, which being placed, in too many instances, under the management of men unacquainted with the first principles of practical banking, the grossest errors and abuses ensued; and business was pushed, not only to the full extent of the capital of those establishments, but to the utmost limit of their credit. Nor was this improvidence confined to the newly founded companies. Private banks and the Bank of England vied with the new establishments in this race of folly; and a degree of excitement was thus given to trade, to production, and to mercantile speculation, which seemed to be boundless.

That check, however, which ought to have been maintained by the operation of an efficient system of *internal exchange*, was effectually but severely manifested, in the *national exchange* with foreign countries, and more particularly with America. The Bank of England, by the rapid withdrawal of gold from its coffers, was roused from the false security in which it had been reposing. But instead of applying a wise and cautious remedy to the evil, the bank made a sudden pause in its accustomed operations, and a concomitant rise in the rate of interest. And the consequent alarm and inconvenience, brought

about a commercial or monetary crisis at home, and involved America in bankruptcy.

The causes and history of the recent crisis strikingly illustrate the inefficacy of the withdrawal of the small notes as a check to over-trading. If ever a commercial crisis was produced by improvident bank accommodation, the crisis of 1836-37 was of that description. And yet what is the specific which is now proposed as a protection against a recurrence of the evil? Why, nothing short of making the Bank of England the sole bank of issue! The American President's scheme of superseding the whole system of paper currency, and supplying its place by gold and silver, with treasury strong boxes, is preferable to this. There is a transparent absurdity in the American proposal, which is less insidious, and likely on this very account to be less pernicious, than the scheme of the Bank of England. In its operation on commercial prosperity, the American expedient would have indeed no parallel except in the short-sighted improvidence of the aborigines of that continent, who, as we are told, have been known to set fire to the forests which surround them, in order to dislodge and kill the game which may fly from the conflagration; forgetful, in their eagerness to provide for a present exigency, that they are depriving themselves of the shelter and protection on which their future comfort, if not their very existence, may depend. But while we can regard with derision the semi-barbarous views of the American President on the subject of banking and circulation, we have in truth but little cause to plume ourselves on our own superiority. For it is a melancholy fact, that the Transatlantic treasury strong-box system, is practically embodied in Sir Robert Peel's unfortunate measure for substituting the expensive medium of gold and silver for the English small notes.

If Sir Robert Peel had given the subject of banking and the currency that attention which he is so eminently qualified to be-

stow, and which their importance so imperiously demands from every statesman, he could not have been blind at the time ; and even if he had been so, assuredly he cannot be blind now, to the vital error which he committed when he abolished the small bank notes. But if this distinguished statesman, and the political economists whose theories he adopted, remain still unconvinced, let them look to Scotland, and observe the working of the banking system here. In this country, by far the greater portion of our trade is carried on by means of a small-note circulation ; and it is an undeniable, and at the same time a remarkable fact, that while England, during the past year, has suffered in almost every branch of her national industry, Scotland has passed comparatively uninjured through the late monetary crisis. Indeed, when Sir Robert Peel views the subject, aided by the lights of recent experience, he will find, that the evil to be guarded against is not to be found in one description of notes more than another, but *in the uncontrolled issue of any notes, whether large or small.*

Now, Sir, this is the point to which I wish more particularly to draw your attention. The great object of civilized governments, in issuing and maintaining a gold and silver coinage, has been to afford a standard currency, in which payments may be reciprocally made and received. When the calls of an increased and extensive commerce demanded the additional accommodation of a paper currency, the difficulty to be surmounted was, to maintain, not only a nominal, but a real parity between these two descriptions of currency, and at the same time so to control the issue of paper, as to prevent the country from being drained of bullion, by a general depreciation of the circulation, arising from over-issues of paper.

Had Sir Robert Peel confined his attention to these definite objects, the country would have derived incalculable benefit from his labours. The suspension of cash-payments during the war was a temporary remedy for an accidental and press-

ing emergency; and Sir Robert Peel was guided by the soundest principles of political economy, when, on the conclusion of the war, he adopted his wise and cautious measure for the resumption of cash payments. That this measure was accomplished at the expense of a great national sacrifice, involving a most serious change on all monetary relations, is undeniable; but it was a necessary sacrifice, and it has been acquiesced in and endured by the country. It must never be forgotten, however, that the policy of that measure rested on a principle entirely different from that which led to the abolition of the small notes; although the two measures have been ignorantly blended, by speculative reasoners on the subject.

The numerous failures among private bankers in England during the years 1825, 1826, called for legislative interference; and it was then that the abolition of the small notes was accomplished, and that at the same time the foundation was laid for joint-stock banks in England, by the repeal of the statute as to the number of partners in a banking company. But the mistake was, that this great change was not accompanied by corresponding guarantees against the consequences of opening such a field for adventure. The public confidence, upon which banking depends, requires as its basis an efficient control over the issues of paper; and the beauty of the Scotch system, although it seems to have been almost entirely overlooked in England, is, that this control is maintained, not by legislative enactments, but by what in practice has been found greatly more efficacious, *viz. the surveillance of the entire banking community of the country, over the issues of each individual establishment.*

During periods of great national prosperity, banks which have not obtained the confidence of the public, in the largest acceptation of the word, have frequently established such a credit in their immediate vicinage as to command a large amount of deposits and circulation. But when a period of

mercantile or commercial difficulty arrives, the transient credit which they have obtained is lost or impaired, and they are called upon to repay the sums which have been deposited with them, and to retire the notes which they have pushed into circulation, precisely at the time when those of their customers who have become dependent on them in seasons of prosperity, cannot lessen the amount of their engagements, and when, if deprived of their accustomed banking accommodation, they must be reduced to bankruptcy. The natural consequence of this state of things is, that such banks become themselves embarrassed, and, if not supported by extraneous assistance, must come to a stand. But if the commercial distress be general, this extraneous assistance cannot be obtained; and the manner in which the Bank of England, on such occasions, administers its assistance, has not been such as to encourage implicit reliance on that establishment, on the part of the banking interest generally, and least of all on the part of the new joint-stock banks.

These, then, are the circumstances under which you are called upon to make provision against the day of adversity; and it is to the means of attaining that object that I intend to confine myself in the remainder of these observations.

Two great errors appear to have been committed in the formation of joint-stock banks in England, and, until these are remedied, such establishments can hardly expect to reach a higher degree of importance or credit than is attainable by a wealthy private bank. These evils are, in the first place, too small a capital relatively to the extent of business undertaken; and, in the next place, the circumstance of the issues of the joint-stock banks being left uncontrolled by any effective system of *Exchange*. Hence it happens that the stock even of your most successful joint-stock banks is not much above par in the share market, while your circulation is circumscribed to the district immediately surrounding the seat of the bank. }

In these two most essential points, the English system differs from the Scotch; and the difference is so important as, in my humble apprehension, sufficiently to account for the greatly higher value of the stock of similar banks in Scotland; and, in general, to explain how it happens that our banks of issue are so favourably distinguished, even from the very best of the English banks.

The advantage of a small capital in banking is, that it enables the establishment, if at all successful in business, to pay a large dividend. The profits of banking depend, in a great measure, on the amount of deposits and circulation, and according as these are great or small, compared with the extent of the capital, will the company be enabled to divide a larger or smaller dividend. It therefore becomes the obvious policy of those establishments, the managers of which conceive that the success of a bank is proved by the early payment of a high dividend, to keep the capital of the company within the narrowest possible limits. This system has been carried to the utmost extreme in England; and hence, although large dividends have been paid to the shareholders, there has been no corresponding increase of confidence on the part of the public.

The Scotch banks, on the other hand, have pursued a directly opposite course. Their object has been to secure public confidence by the extent of their capital, and they have continued to pay moderate dividends to their shareholders, until justified in augmenting them by years of success, and a large accumulated sinking-fund. So well, indeed, is this system understood, and so completely has it attained its purposes, that the slightest appearance of improvidence displayed by a Scotch joint-stock bank, in fixing the amount of its dividend, has been invariably attended with a decrease of the public confidence in the stock of the establishment. In this manner public confidence has been secured, the value of Scotch bank

stock has risen in the market, and the shareholders have received their extra profits as a *bonus*, or in the increased value of their own shares. Thus, instead of being looked upon as establishments aiming at the ephemeral advantage of making a large dividend, for stock-jobbing or temporary purposes, our banks have almost invariably assumed the character of permanent national establishments, identified with the prosperity of the country, and, by means of their small-note circulation, conferring benefit on, as well as obtaining the confidence of, every class in the community.

The impatient and purblind eagerness of some of the English joint-stock banks to declare large dividends, has introduced the pernicious system of re-discounting, which has been so justly reprobated. It is hardly possible to imagine a system better calculated than this is to bring joint-stock banking into discredit with the public. In this way banks with constituencies, fitted, under good management, to confer the greatest benefits on the country, as well as on the copartners, are made dependent on the Jews and bill-brokers of London; and the fate of the Northern and Central Bank of England is a notable and instructive example of the slender reliance which can be placed on such resources, when a monetary crisis arises.

These errors, which have been less or more apparent in the formation and management of many of the recently established English joint-stock banks, have been greatly aggravated by the want of that check and control over the issues of these several banks, which has been found so efficacious in Scotland. I allude to the arrangement under which the exchanges of the notes of the different Scotch banks is managed, and their over-issues (wherever they have been made) returned upon them in a manner, and within a time so short, as to hold out very slender encouragement to that species of mismanagement. Indeed, by means of this expedient, any issue of notes which the resources

of the particular bank cannot sustain is rendered almost *impracticable*; and as I cannot help thinking, that joint-stock bankers in England are not sufficiently alive to the practical advantages of this part of the Scotch system, I shall endeavour to explain, very briefly, how it is managed.

The system of exchanges centres in Edinburgh. In that city a general exchange of the bank notes of all the banks of issue in Scotland, takes place twice a week. This exchange is made alternately within the office, and under the superintendence of the Bank of Scotland, and of the Royal Bank. On these exchange days clerks from all the banks having establishments in Edinburgh assemble, bringing with them the notes which each bank has collected, not only in Edinburgh, but, by means of their branches, all over the country; and as the Edinburgh banks act as agents for the several provincial banks, and, as such, exchange or give value for their notes, the whole banking interest of Scotland, so far as concerns the exchange of notes, is represented in the "*Clearing-room*."

On these occasions a mutual exchange is made by the several clerks assembled, giving the notes of other banks which they hold, and taking their own in exchange. After this exchange of notes, a balance is struck, and each clerk hands over to the officer of the presiding bank a statement, showing the amount of the balances as between his own bank and each of the other establishments. The aggregate balance on this statement, shows the result of the day's exchange, as it affects each bank; and that balance will be for, or against, any given bank, in the precise proportion in which its recent transactions have exceeded or fallen short of its emerging and available resources.

The ultimate balance against every bank was formerly paid by a draft on London at ten days' date. But this mode of settlement having been found inconvenient, and having on one occasion led to considerable loss, in consequence of the

failure of a private bank in Edinburgh, a different arrangement was then made, and is now acted upon. According to that arrangement, every Scotch bank of issue, having an establishment in Edinburgh, is bound to hold a certain *quota* of L.1000 exchequer bills. This *quota* is proportioned to the average circulation of the particular bank; and with these exchequer bills the balances of exchange are paid, the fractional parts of L.1000 being settled by L.100 Bank of England notes, or gold.

As the object of this system is to oblige each bank to hold a certain amount of tangible government paper to meet any fluctuation and excess in its issues, the several banks are farther bound, under the general exchange arrangement, to sell or to buy exchequer bills to or from each other, whenever the number of bills which any one bank holds exceeds one third, or falls short in the same proportion, of the conventional *quota*. These purchases and sales of exchequer bills made from and to the banks reciprocally, are settled for by the bank making the purchase, by a draft on London at five days' date, with a commission equivalent to the eight days which the draft has to run at the exchequer bill rate of interest. In order to prevent the risk of these mutual sales and purchases of exchequer bills being converted into stock-jobbing transactions, the purchases are made at par, and each bank holds its *quota* in its own name, direct from government, while the general supply of exchequer bills is kept in the circle by being specially marked as "*Edinburgh Exchange Exchequer Bills.*"

Still farther to complete the control of the banking interests over these exchange arrangements, a statement is produced by each bank, on every exchange day, showing the amount of exchequer bills which it holds. And it is only necessary to add, that these exchange regulations, which have been found so salutary in practice, are the result of mutual and voluntary concert among all the banks; and although it may be said

that they are not compulsory, yet in effect they are so, since any bank of issue refusing to accede to them would incur the risk of having its notes refused by the combined banks, which in Scotland would be tantamount to a suppression of the non-acceding bank as a bank of issue.

In addition to these exchanges in Edinburgh, there are also exchanges made on the same days in Glasgow; and the balances being advised by post to Edinburgh, are settled for next morning in the same manner, by exchequer bills and Bank of England notes. So also, in order to save the trouble and risk of transmitting to Edinburgh or to Glasgow, notes collected by the different agents in the country, wherever there are two or more branch-banks in the same town, their managers or agents exchange notes, and advise the state of balances to Edinburgh, when they are included in the next ensuing general exchange.

What I have now said may be sufficient, without going into farther detail, to give a general idea of our system of exchanges. The Scotch banking interests have been mainly indebted, it is believed, for the complete organization of this system, to Mr Blair, the treasurer of the Bank of Scotland, one of the most talented of our Scotch bankers; and although in description it may appear complicated, nothing can be simpler or more satisfactory than its operation in practice; nor can any check be more efficacious. Legislative enactments might be evaded, or they might prove needlessly inquisitorial, or they might impose undue and impolitic restraints on the freedom of trade. But this system leaves the *internal* operations of each bank entirely uncontrolled, while at the same time any over-trading, or improvident issue, is immediately exposed and checked by its rivals in trade—truly by means of a great mercantile union amongst the traders themselves, for protecting the public, and giving that general stability and credit to the entire banking interest which, in Scotland at least, seems to be thought essential

to the well-being and success of each individual establishment.

I am well aware, that in many of the provincial towns of England there is a sort of exchange established. That is to say, where there are two or more banks in the same town, they exchange each other's notes, and settle the balance by a draft on London. But it would be a great mistake to suppose that this resembles the general system now acted on in Scotland. By the English practice, the notes of neighbouring banks are rendered current for a few miles around the offices of the respective banks, whereas, by the Scotch system, the notes of the most insignificant bank in Scotland *circulate from one extremity of the country to the other*. In short, while the Scotch notes pass current and unquestioned throughout Scotland, the notes of an English joint-stock bank are doubted or rejected whenever they pass beyond the immediate influence of the bank by which they are issued. A rival bank in England rejects the notes of a competitor, and thinks he does a service to his own establishment; whereas in Scotland the note of a rival bank is readily taken by any other bank, *and thereby withdrawn from the circulation, and reduced into money at the next exchange*. Besides, while this mutual distrust of each other, by which English banks are guided, necessarily recoils on themselves and on the whole system, it is attended with very great practical inconvenience. For a man cannot pass from one county to another until he has exchanged all his local notes, at the particular bank where they are payable, for Bank of England notes or gold, or for a letter of credit.

Doubtless there are obstacles to the establishment in England of such a system as we have in Scotland; and not the least formidable of these obstacles is the influence of the Bank of England, and the circumstance of the notes of that establishment being a legal tender. But still there appears to be a short-sighted jealousy among the provincial English banks,

which it would be of the utmost consequence to counteract. How is it possible that your English joint-stock banks can secure the confidence of the public, while they betray such a want of confidence in each other? A system of exchanges, well arranged and based on the system which I have explained, might go far, I humbly think, to accomplish this desirable object, and to consolidate the joint-stock bank interest of England. Until some such arrangement is introduced, your currency cannot be maintained in a vigorous and healthy state; nor will the joint-stock banks derive the full profits from their circulation.

It has been said that England is too extensive a country to admit of the introduction of such a system. But this objection seems not to be of much weight; since, by selecting one or two large towns as centres for the system, and concentrating the whole in London, the most remote agency in England might be brought nearer the place of general exchange, than many of our northern bank agencies in Scotland are to Edinburgh.

A more formidable objection, perhaps, to the introduction of the Scotch system of exchanges in England, is to be found in the fact, that the profits of the English circulation are not equal to that of the Scotch. The profits derived in Scotland from the small-note circulation enable our banks to sustain the expense of our system of exchanges; and it is undoubtedly true, that the suppression of the small-notes in England has burdened that country with a heavy load of gold currency, by which several millions of the national capital are rendered unproductive; and several hundred thousands of pounds annually lost by the wear and tear of the coin, and the expense of coinage. But if, in addition to these evils, the want of small notes should prove a barrier to the introduction into England of the salutary system of exchanges which we in Scotland enjoy, it may well deserve the consideration of Parliament whether it

would not be advisable to restore that valuable medium of circulation.

The resumption of cash payments, merely made the paper currency legally *convertible* into gold. But our system of exchanges has in truth converted our paper issues into gold, or its equivalent exchequer bills, by withdrawing every superfluous note from circulation. Hence it is that our Scotch paper currency is, for all practical purposes, as secure and infinitely more convenient than the English gold currency. At the same time we have made it the interest of every banker in the country to collect the notes of rival establishments, and thereby to withdraw them from circulation, and convert them into gold or Government paper. Here, then, we have a result which in England it required the sanction of the Legislature to confer on the notes of the Bank of England, brought about in Scotland solely by a *well-devised and enlightened union of private interest with public convenience and safety*.

Nor are these benefits, great as they are, the only advantages which we have derived from our system of banking. Our one-pound notes connect and familiarise every artizan and labourer in the country with our banking establishments; and the implicit confidence in our paper currency thus created, and perpetuated by the general experience of the sufficiency of our banks, has on many occasions been remarkably illustrated. It is no exaggeration to say, that at this moment nine tenths of the labouring classes of Scotland, if they had their choice, would *prefer* a one-pound note to a sovereign; and, as a consequence of this feeling of security, combined with a sense of the other advantages of the system, no one in Scotland can have forgotten the truly national stand, on behalf of our currency, which was made by rich and poor in the year 1825, when your English economists, proposed to visit us, with an injury similar to that which was in that year inflicted on England.

With banking establishments thus pre-eminently possessed

of national confidence, no mercantile convulsion has hitherto created any general run on our great joint-stock banks. It has been otherwise in England, where, in consequence of legislative enactments, the public have been taught to regard *gold and silver* as the only representatives of value. The bond of union between the banks and the mass of the people has thus been severed; and when a monetary crisis occurs, its consequences are incalculably more injurious. With us (though very rarely), runs have been occasionally made on particular banks; but it has been merely to withdraw a deposit from one bank to place it in another; or to exchange the notes of a suspected bank for the *notes* of one of our national joint-stock banks, the prevailing confidence in our paper currency remaining unshaken. In this way the disposable banking capital or resources remain in the aggregate unchanged; whereas with you the run is for *gold*; and the coin thus withdrawn from one bank is not redeposited in another, but hoarded till the panic is over, by which means the entire banking resources of the country are involved in the consequences of the temporary disaster; and this too, at the very time when these resources are most needed.

The English joint-stock bankers will take but a very contracted view of the subject, as well as of their own true interests, if they allow any professional jealousy to interfere with the introduction into England of a system of exchanges similar to that which we possess in Scotland. By giving currency to the notes of rival establishments, on a fair principle of reciprocity, and under a conventional arrangement as to security, such as we have in our supply of exchequer bills, it must be evident, that instead of curtailing their own profits, these banks will greatly augment them by extending their circulation over the whole kingdom. Those who conduct joint-stock banks in England wield a most powerful engine, whether for evil or for good. Ignorance of the true nature of the evil,

on the part of our political economists and statesmen, and selfish motives on the part of the Bank of England, expose all those establishments to the danger of rash, ill-considered, and ruinous interference on the part of the Legislature ; and if all these risks and evils could be averted by a liberal and enlightened combination and union amongst those having substantially one common object and interest, the result would be such, I am satisfied, as would afford a lasting source of congratulation to all who might be instrumental in bringing it about. Such a combination, embracing even half a dozen of the largest establishments, who have branches widely spread over the country, would acquire an influence, and a degree of public confidence, which would make it an object with every similar establishment in the country to become a member of this salutary *union*.

England only requires such a combination as this to enable the joint-stock bank interest to defy even the influence of the Bank of England, and to rival the very extensive circulation of that establishment. That the joint-stock banks are very far from this desirable consummation at present, is but too evident from the fact, that, notwithstanding their number, the last returns show that they have not obtained much above ten per cent. of the circulation of the country, and this notwithstanding their widely-diffused constituencies and their numerous branches. The views, therefore, which I have expressed are not theoretical or speculative. They are illustrated, on the one hand, by the undeniable success which has attended joint-stock banking in Scotland, and by the comparative failure, or, to say the least of it, the prevailing impression of *insecurity and suspicion*, with which these establishments are regarded in England. Union and consolidation are the remedies ; and by mutual confidence thus generated and acted on, the Bank of England may be encountered on something approaching to

equal terms, while with you, as with us, the private banks necessarily must be driven out of the trade.

In addition to the direct advantages which might thus be derived by the shareholders of English joint-stock banks, those intrusted with their management, by organizing such an union, would do more to protect the commercial world against the evils of over-trading, than Parliament could accomplish were it to dedicate years to the concoction of legislative remedies. Besides, as I have already observed, the combination now suggested is not a measure of *aggression*, but actually of *defence*; for unless these joint-stock banks can secure public confidence, and unless they can, by the strength of their position, and the consequent benefits which they may be enabled to confer on the community, raise such a feeling in their favour, as exists in Scotland in favour of our banks, it is manifest, from the present tendency of public opinion, that all your joint-stock banks must fall a sacrifice to the interests of the private banks and of the Bank of England; and that, under the delusive name of *guarantees* and statutory *securities*, enactments will be passed, pre-eminently ineffective, undoubtedly, but at the same time most prejudicial to those great interests with which you are particularly connected.

It is, in truth, a mistake to look upon joint-stock banks as mere commercial speculations. On the contrary, they ought to be viewed as integral parts of a national system, deserving the encouragement and support of the Legislature, as forming the only secure basis on which the trade and paper circulation of a great commercial country like England can rest. Hitherto the whole monetary resources of that country have been confided, by way of a monopoly, to one great establishment; and that establishment, it is to be regretted, has, on emergencies, too frequently proved that it is actuated by unintelligible caprices, by groundless apprehensions and panics, and by a pervading and contracted regard to its own interest, hardly cre-

ditable to an institution on which, for national purposes, privileges so valuable and exclusive have been conferred.

It is true, that the country has had, in addition, the private banking interests to look to in seasons of embarrassment; but however respectable and affluent some of these establishments may be, it is plain that, as a body, they neither possess that share of public confidence, nor those independent resources, which can enable them to sustain commercial credit during a formidable monetary panic; and, looking to what we have seen in such emergencies in Scotland, no one, I think, can reasonably doubt the pre-eminent advantages enjoyed by joint-stock banks in this respect. An illustration of this must at once present itself to every commercial man in Scotland, who recollects the manner in which, in Glasgow, during the mercantile convulsions of 1825, the Royal Bank of Scotland, under the vigorous management of Mr John Thomson, stepped forward to allay the panic which at that time pervaded England, and threatened also to involve Scotland in bankruptcy. Still more recently, in Scotland, similar causes have contributed to a no less satisfactory result.

The practical conclusion, therefore, at which, on the whole, I arrive, is, that a combination, such as has been suggested, is necessary, in order to secure to the joint-stock banks of England their due share of public confidence, and at the same time to defend them against the empirical projects of well-meaning but ignorant politicians, and the selfish designs of interested individuals. This is a duty which those intrusted with the management of joint-stock banks owe not only to their constituents, but also to the community; for it is daily becoming more apparent, that so long as the monopoly of the Bank of England cannot be efficiently counteracted, we shall be exposed to periodical returns of monetary panics and convulsions. Nor have we any reason to expect that it should be otherwise, or to look for an enlarged or disinterest-

ed administration of the money concerns of the country, by a single mercantile company, vested, for political and financial purposes, with privileges which, on every principle of political economy, are incompatible with the freedom of trade, and with the interests of the public.

Every one who has turned his attention to the subject must have perceived that, ever since the establishment of the English joint-stock banks, the Bank of England, with the narrow views of a mere mercantile company, has been availing itself of its great resources and peculiar privileges, in order to prevent any rival establishment from participating in what may be described as the fair profits of banking. That the mercantile interests have suffered from the consequences of the struggle is undeniable; but it is no less clear, that one or more insulated joint-stock banks necessarily must maintain a contest with the Bank of England, on very unequal terms; whereas a general union, for the common behoof, based on the principles already adverted to, while it will benefit each individual member of the confederacy, cannot fail at the same time to secure to the public the incalculable advantages of a secure and uniform system of banking.

It would be utopian to expect that any system of banking, however perfect, should operate as an infallible guarantee against occasional or periodical returns of mercantile distress or embarrassment. But assuredly a great step towards the alleviation of the evils of such periods will be taken, if, by a general co-operation of the banking interests, the disposable capital of the country can be applied to the legitimate purposes of trade, without reference to the capricious or arbitrary resolves, or the particular interests or exigencies, of any one banking establishment. What England seems to require in order to attain this desirable object, is a *Federal Union* (so to speak) of powerful banks, such as we have in Scotland. With us the natural competition of trade secures every fair banking ac-

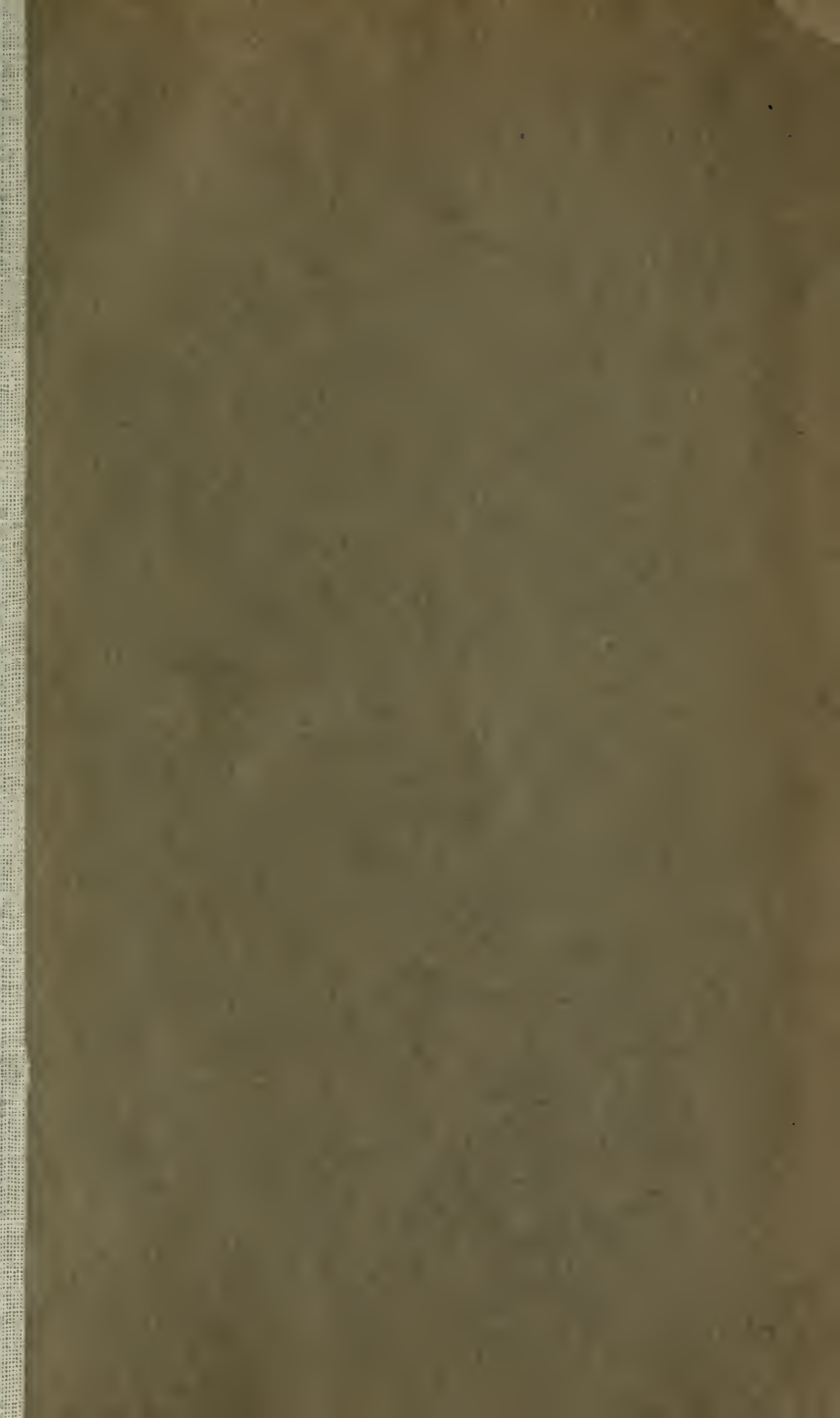
commodation to those who may stand in need of it ; while at the same time, and happily without the intervention of the Legislature, improvident banking, and overtrading, are effectually checked in the manner above explained. In England, judging from present appearances, there seems to be a remarkable predisposition in certain quarters to place joint-stock banking under legislative regulations. What the result may be it is impossible to predict, but, on principle, nothing can be more pernicious or more to be deprecated than this species of interference ; and if a practical and safe system be the *desideratum* with you, it may be well for legislators, as well as for bankers, to make themselves fully acquainted with the Scotch banking system, before they embark in the perilous enterprise of trammelling this department of trade, by statutory restraints.

The foregoing observations have been thrown together at intervals, when released from the calls of professional duty. You will find them desultory, I fear, and in some respects not so perspicuous as I could have desired. But at the same time I trust that enough has been said to draw your attention to a subject of great national importance, and to induce you to direct your well-known professional energies to the attainment of an object which, if attained, will most amply reward your best exertions. I have the honour to be,

SIR,

Your most obedient humble servant.

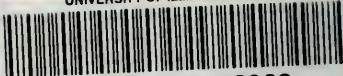
Edinburgh, 53 Queen Street,  
26th December 1837.







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